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C O N F I D E N T I A L SECTION 01 OF 02 QUEBEC 000075

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SUBJECT: QUEBEC FEDERALISTS: SEEKING MORE FROM OTTAWA

REF: A) 04 OTTAWA 2837; B) OTTAWA 1029; C) 04 OTTAWA 3865

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State.

REASON: 1.4 (b)

**¶1.** (SBU/NOFORN) Summary: In a May 17 meeting with Quebec City CG, Quebec Minister for Canadian Intergovernmental Affairs Benoit Pelletier was upbeat about the government of Quebec's success in negotiating deals to its advantage with the federal government. At the same time, he expressed support for the 1995 Agreement on Internal Trade (AIT), which aims to reduce obstacles to trade among Canadian provinces. Referring to Quebec's regulation on margarine coloration, Pelletier said Charest will have a political crisis if Quebec loses before the AIT dispute resolution panel, given that Canada's Supreme Court earlier upheld the regulation and that Charest's Liberal Party government agreed despite this to put the matter before the panel. Pelletier said that for Quebec's liberal government, the three provincial-federal battlegrounds are equalization payments, fiscal imbalance, and Quebec's role on the international stage. End summary.

**¶2.** (U) Quebec Minister for Canadian Intergovernmental Affairs Benoit Pelletier told CG that he was recently given another ministerial portfolio, that of Minister for the Agreement on Internal Trade (AIT). (Note: The AIT is a 1995 Canadian intergovernmental agreement which aims to remove obstacles to intra-Canada trade and, by so doing, reinforce Canadian unity. End note). Pelletier said that Quebec, a long-time supporter of free trade, took the lead in the 1994 negotiations to conclude the Agreement and that Quebec will be hosting a Federal and Provincial ministerial-level meeting on internal commerce next month in Quebec City.

**¶3.** (SBU) CG asked Minister Pelletier how Quebec's support for reducing intra-Canadian obstacles to trade could be reconciled with Quebec regulations preventing the manufacture and sale of margarine in Quebec that has the same color as butter. Pelletier acknowledged the political sensitivity of the issue, asserting that the margarine regulation has the strong support of Quebec's influential dairy farmers. He noted that Canada's Supreme Court has upheld Quebec's margarine regulation and that, despite this, Charest's Liberal Party government agreed to Alberta's bringing the matter before an AIT dispute resolution panel. Pelletier expected the Panel to issue its findings perhaps this fall. If the Panel rules against the Quebec regulation, Pelletier said the Charest government would be faced with a "political crisis" as the Premier will have to contend with a political backlash from Quebec's agricultural sector.

**¶4.** (SBU) Turning to provincial-federal battles, Pelletier, a former constitutional law professor, said that Quebec is contesting: in provincial courts, the constitutionality of a federal law on access to information in the public domain; in Canada's Supreme Court, federal legislation on parental leave; in Quebec's Court of Appeals, a federal law on e-commerce privacy; and, in that same court, federal legislation on fertility treatment.

**¶5.** (SBU/NOFORN) Pelletier believed that despite chronic jurisdictional tension between Quebec and the federal government, the Charest government's track record on intergovernmental relations is running solidly in favor of Quebec. In December, 1993, Charest lobbied successfully for the creation of the Council of Federation; in September, 2004, the GOQ wrested a favorable agreement from the federal government on health; in January, 2005, the GOQ scored a success on parental leave funding; and in April, 2005, he concluded, Charest came home with 1.2 billion CND for infrastructure.

**¶6.** (U) That said, Pelletier noted that many more areas remain under negotiation between Quebec and the federal government. These include funding for child care; earmarking a percentage of the federal gas tax that would go to municipalities via the provincial government; nominations to the Supreme Court of Canada; and defining the role of Quebec at the international level.

**¶7.** (SBU/NOFORN) Pelletier cited defining Quebec's international role as one of three key battlegrounds between the GOQ and the federal government, along with equalization payments and "fiscal imbalance" (Reftels). He felt some progress had been made in righting the scales regarding equalization payments and the

fiscal imbalance but that more needed to be done. Pressure on the federal government to address these two problems was mounting, he said. First, there was the intergovernmental equalization payment conference of last October, then the GOC created a commission of experts on equalization and, following that, the Council of Federation created a commission of experts on fiscal imbalance. The Canadian House of Commons has now also created a committee on fiscal imbalance.

18. (C) Comment: CG's meeting with Minister Pelletier took place against the backdrop of intense political horse-trading back in Ottawa, including a host of budgetary concessions to the provinces by PM Martin in a last-ditch effort to salvage his government. Le Soleil chief editorial writer Pierre Paul Noreau told CG that over the last three weeks, PM Martin's "concessions" had averaged a billion dollars Canadian a day. Not something the federal government can continue for long but certainly something that the Quebec government appears eager to cash in on.

FRIEDMAN